BLONDIE ECONOMICS

Flix & Isabeloide

Blondie Economics

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Economics

Economics is the science of human action. How people act to reach their preferred ends, using the means at their disposal in a world of scarcity. How they choose to satisfy their needs and desires.

"Blondie makes up to look pretty for Pete"

In the real world means are always limited; scarcity is a fact of life. If means were unlimited there would be no need to choose, make decisions or even think about it.

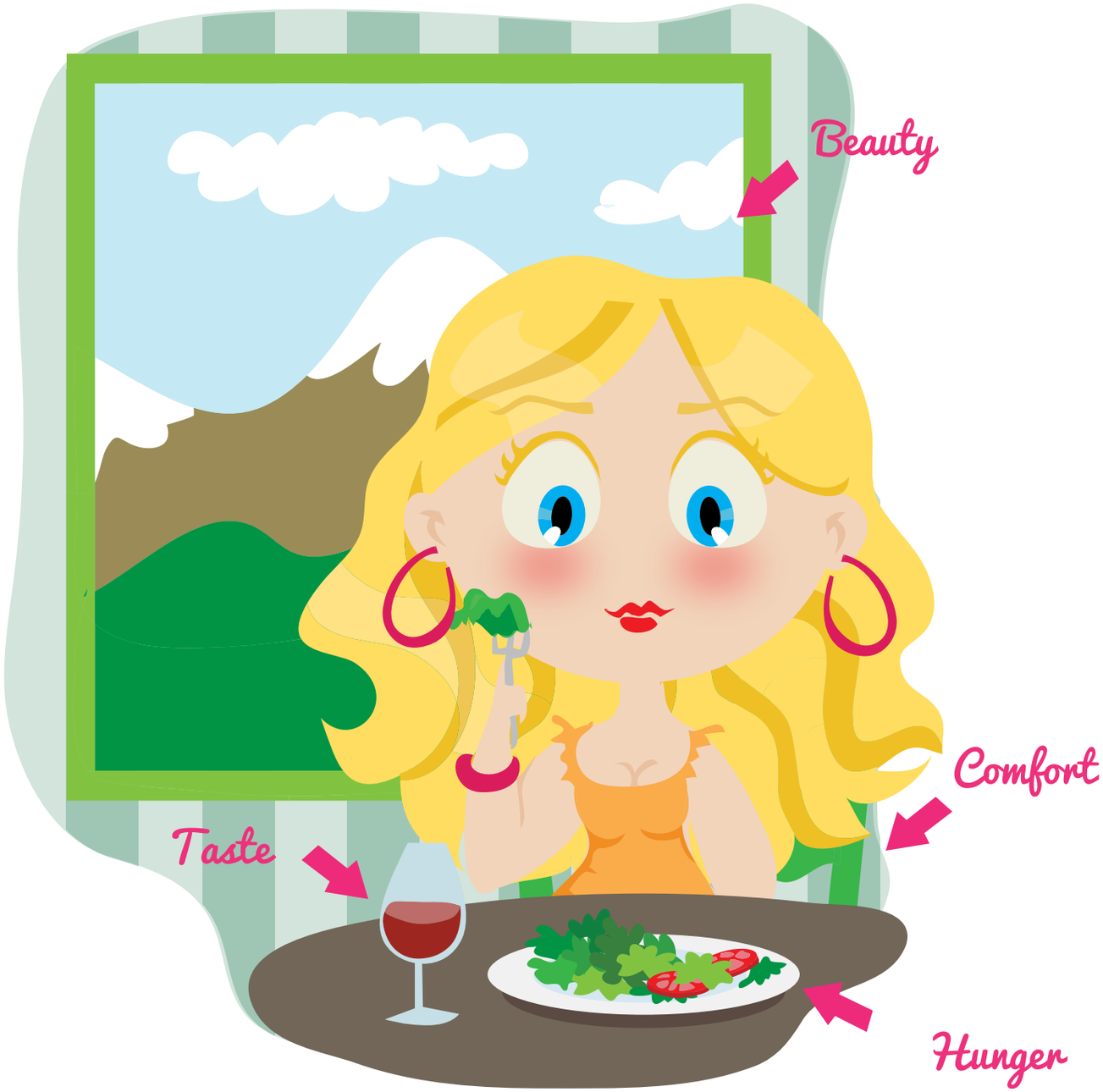
"If Blondie had all the shoes in the world in her magic wardrobe, she would never have to make an economic decision"

Time is also always scarce.

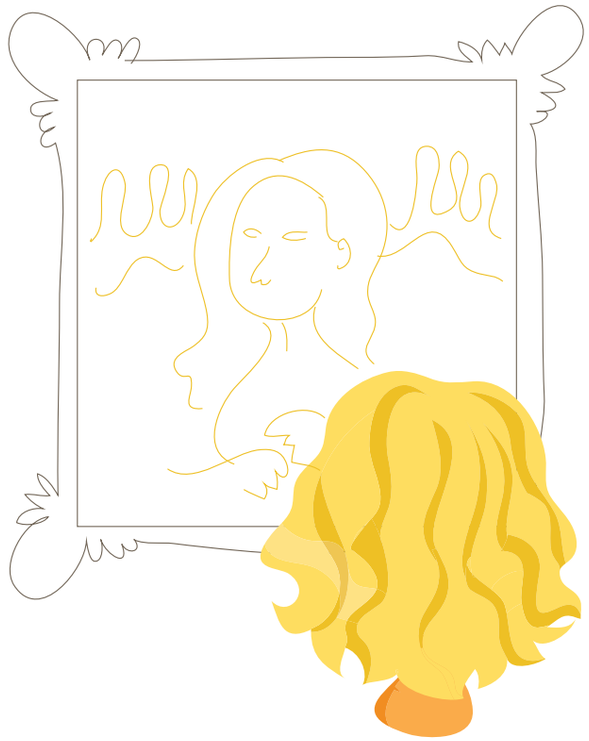
"Blondie must choose whether she prefers to go skiing in Canada or have dinner in Paris. She can't do both at the same time"

Goods

Economists speak of goods, those objects that allow us to satisfy our needs and wants.



But not all goods are the same. Economists classify them according to how directly they satisfy our needs. Those goods that directly satisfy our desires are called “consumer goods”, those that can be used to make consumer goods are called “production goods” and those that are used to make production goods are called “capital goods” or simply “capital”. Depending on how far each good is from final consumption, they are also called 1st, 2nd and 3rd order goods.



Consumption

Capital

Production

Economists also define factors of production into three categories: Land, work and capital.

Land is the general term for anything given to us by nature.

Work is the time and effort that people spend on creating anything.

Capital are those production goods that we have already created and that we can use in combination with our work and natural resources to create ever more complex things.

Subjective Value

Economics is a social science. It does not deal with things or numbers, but rather with how people feel and value those things. The value of a good will depend on the needs that it satisfies. All goods are means to an end and what is important is what they can be used for and how much we value that end. A hairdryer is a consumer good for Blondie, but if that hairdryer is on the moon, it won't be any use to her. We would simply not consider it an economic good.

The hairdryer's value to Blondie will depend on the function it serves and how important that is to her. If Blondie had to choose between the hairdryer or a hair curler, what she would be really deciding between is whether she cares more about having curly hair or being able to dry it quickly.

"Curly or straight?"

The value of economic goods is subjective. It depends on the needs and wants of each person that uses them. Some economists reached the conclusion that, since work is the most important factor of production, the more work and effort that goes into making a good, the higher value it should have.

Since Blondie spent more time and effort on the daisy necklace, it should be worth much more, or so thought David Ricardo, a famous economist. However when Blondie offers her friend Lucy a choice between the two…

Lucy prefers the rose bracelet. As another economist Frédéric Bastiat said, people value things depending on the satisfaction that they provide. This can also be said of production goods. Their value will not depend on the effort it took to create them, but on the satisfaction that they indirectly provide through the consumer goods that they can be used to make.

If Blondie had to choose between a coffee machine and an orange juice squeezer, she would not make her choice based on how difficult it was to make each machine or how many hours of work went into each. What really matters to Blondie is the satisfaction the final product will give her. Blondie likes juice much more than coffee, and that's that. Of course if Blondie had a magic unlimited credit card she could buy both. She could buy the whole shop! But let's not forget that economics is the science of choices made in a world of scarcity. There is no need to choose if there is no scarcity.

"Roses! My favourite!"

"Blondie spends an hour making a daisy chain, and a few minutes making a rose bracelet"

One of the most famous economists of all times, Adam Smith, could not quite believe what we just said. “If what really matters is the satisfaction of wants” he asked “why do people prefer diamonds to water?” After all, water satisfies thirst and is necessary for life, whereas diamonds are just shiny trinkets used for jewellery. How can we give more importance to something frivolous than to a basic need?

“Uhhh...Shiny...!!”

Marginal Utility

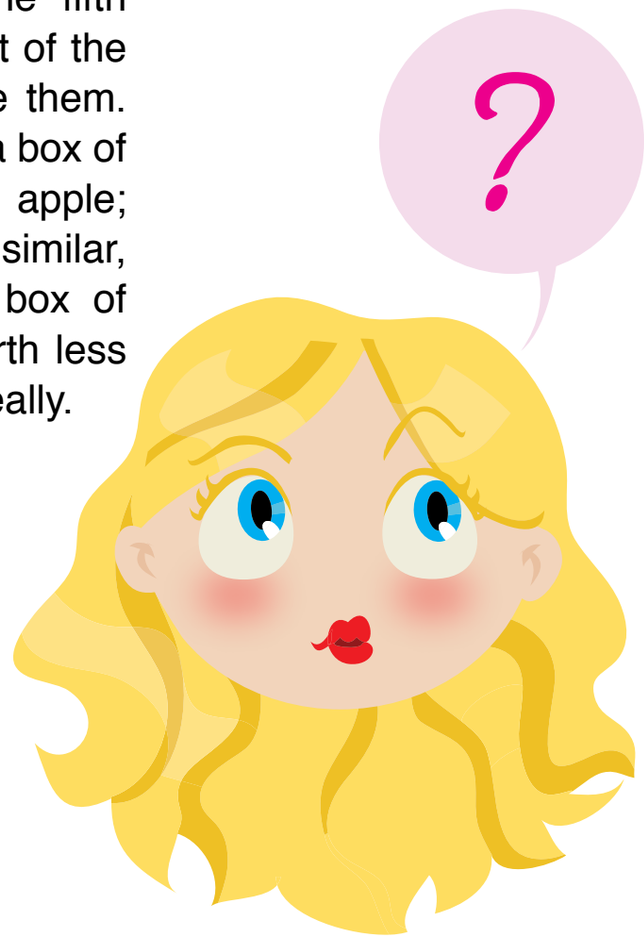
The answer to the diamond and water paradox comes from asking a very simple question: How much? If Blondie had to choose between all the diamonds and all the water in the world, of course she would choose water! Otherwise she would not live very long to enjoy her pile of diamonds. Between the need to drink (and live) and the desire to adorn herself with shiny rocks, there's no contest. However in the real world choices are hardly ever all or nothing. We usually have to choose between certain quantities of goods. That is, a given number of units of water or diamonds.

"Is a glass of water worth more than a diamond?"

Carl Menger, an economist from Vienna, was the first to come up with the answer. He discovered what he called the Law of Marginal Utility, which explains that each particular unit of a good is worth as much as the least important need that the last unit will satisfy, as long as all units are alike.

For example: Blondie has 5 boxes of chocolates. She likes chocolate a lot so she plans to eat the first two boxes. She will give the third box to her best friend Lucy and the fourth to her nice neighbour Annie. With the fifth box… well she doesn't quite know what to do with it, it's a lot of chocolate.

What if Blondie exchanged that last box for an apple? Which need is she giving up? Not the most important and urgent desire (eating one box) or even the next in line (eating a second box). No. What Blondie gives up when she exchanges the fifth box is the least important of the uses that she could give them. She is therefore valuing a box of chocolates less than an apple; since all the boxes are similar, does this mean that a box of chocolates is always worth less than an apple? No, not really.



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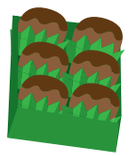
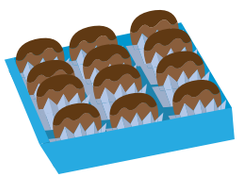
3ª 

4ª 

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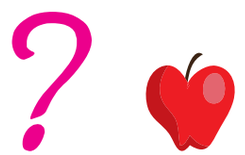


"What is Blondie giving up if she trades one box?"

What it means is that the satisfaction gained from the fifth box is less than that provided by the first apple. The marginal utility of another box, given that she already has four, is smaller than the utility of one apple, given that she has none.

Again, what gives value to an additional unit of any good is the extra (or marginal) satisfaction provided by that unit. If all units are similar, this inferred value can be extended to all units of that good. However we must remember that if they are not the same, we cannot extend the value of one to the others.

For example, Blondie would not be giving up the same thing if she gave away her green high-heeled shoes or her sandals. The desire satisfied by the former (going out) is not the same as the use given to the latter (strolling down the beach). The value that Blondie gives to the shoes will have little impact on how much she likes the sandals.

" They do not satisfy the same desire"

"Marginal utility helps us value concrete quantities of similar goods"

Opportunity Cost

Whenever we choose something we are giving up an alternative. The value of production goods comes from that of the consumer goods that they make. Just as the value of consumer goods comes from the needs and desires that they satisfy. As we saw before, quantity matters. Blondie loves music and her good friend Lucy lets her choose, as a birthday gift, between an i-pod and a guitar.

"I love playing, but I can only play half an hour a week"

"With this player I can listen to my favourite songs every day"

If Blondie picks the guitar, she gives up the opportunity to listen to her favourite music all the time. The choice that she renounces is called the Opportunity Cost of her decision. Nevertheless, if playing the guitar two hours each month is higher on her preference scale than listening to twenty hours of music a month, she will choose the guitar.

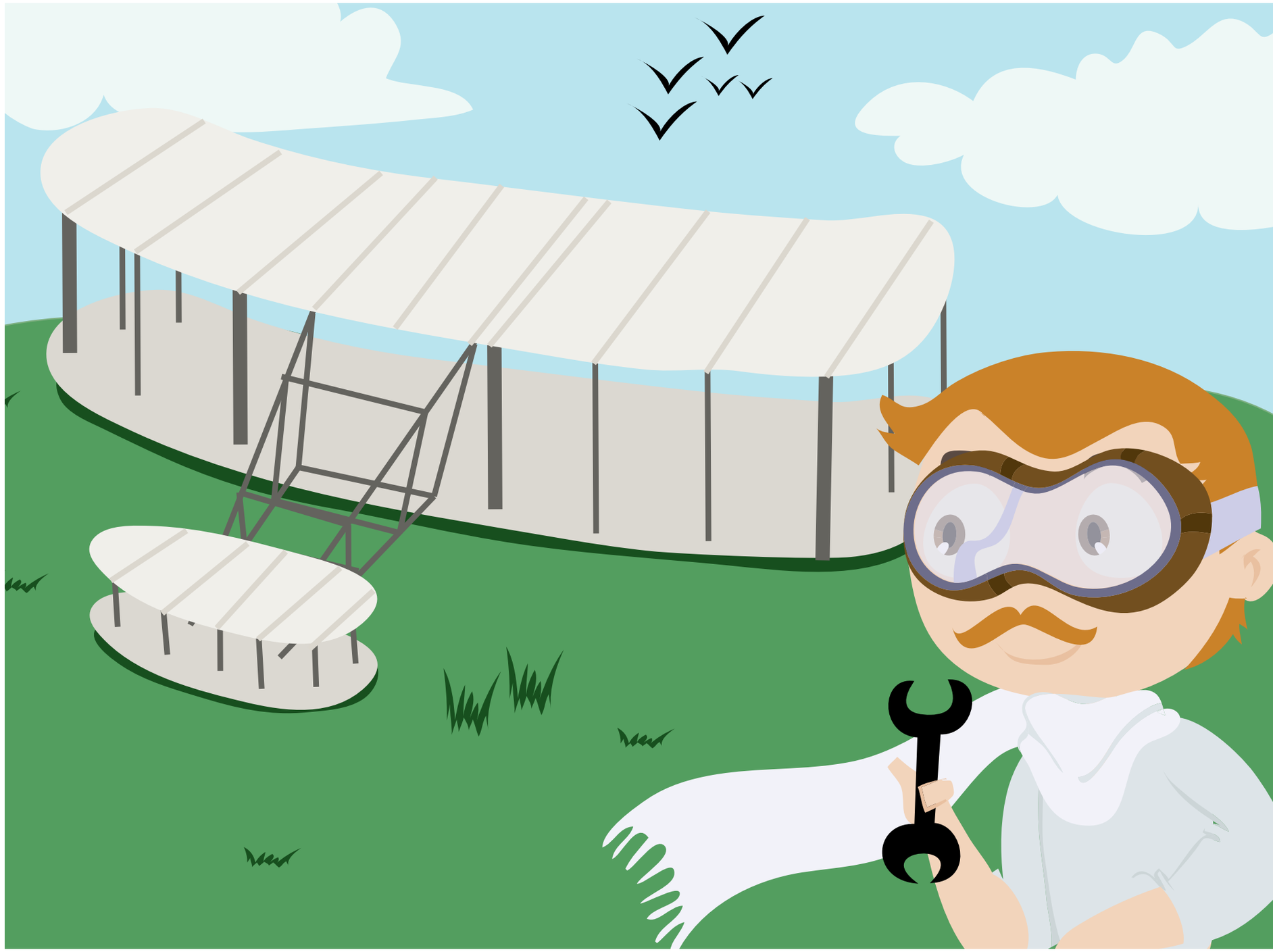
However, Blondie discovers after receiving her guitar that playing it is much harder than she thought! She will not only not be able to listen to music all the time with her i-pod, she will also not be able to play her favourite songs for months, when she has learnt to play well enough.

Economic choices are always made with incomplete knowledge, in an environment of uncertainty. All decisions made based on expectations will imply taking a risk. Given a choice, and all other things being equal, you will always pick the option with the smaller risk.

However in real life you hardly ever have situations with “all other things being equal” (what economists term “ceteris paribus”) and that is why people act as entrepreneurs when they weigh risks, opportunity cost and potential profit before making a decision.

When you make the wrong choice, you incur a loss. When you get it right you make a profit. Profit and loss are signals; they transmit information and allow us to learn from our mistakes and successes, helping us to make better decisions in the future. It’s only those that take risks and undertake uncertain projects that improve their situation and discover, create, innovate, build and, in short, progress.

“All ventures are uncertain, but progress requires taking risks”



Savings and Capital

As we saw before, to meet our objectives we use different types of goods. Production goods and capital goods don't satisfy our wants and needs directly, but help us reach our goals by allowing us to create consumer goods. It is only worth our while to pursue this indirect way of meeting our ends if it is somehow better or more efficient in some way.

Blondie has a pet: a cute little panda bear that she absolutely adores. Every day she cuts a bamboo stalk from her garden to feed her panda. She cuts it by hand and it takes her all her free time to do so (to keep it simple let us say on hour each day), so she doesn't have a lot of time left to play with her pet.

"Blondie increases her productivity by creating capital"

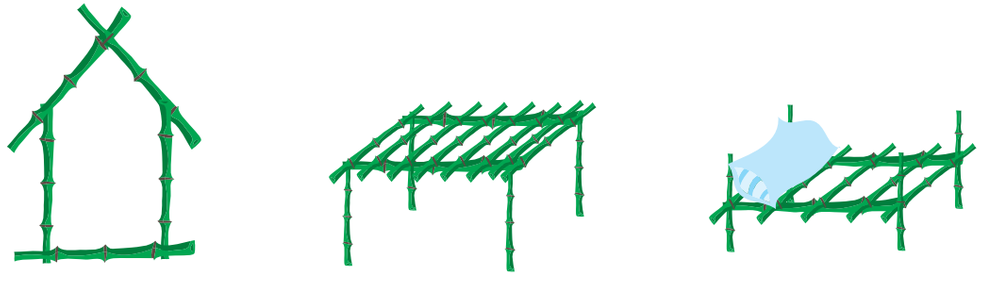
But Blondie has a brilliant idea: she will make a saw using bamboo and rocks from her garden and thanks to this production good she will be able to cut bamboo stalks much faster. However, as we saw in the previous chapter, every decision has an opportunity cost. In this case Blondie will have to spend all her free time today (one hour) to make her tool, and this would mean that she must choose between one bamboo stalk today (if she continues to cut it by hand) or three bamboo stalks tomorrow (with the help of her new saw). Her panda would cry and go hungry today!

Her choice will depend on her time preference: how much better are three stalks tomorrow than one today? And also on her risk tolerance: what if I'm wrong and the saw does not work? Supposing that Blondie is confident that her plan will work and goes ahead, the next day Blondie will have three bamboo stalks. She gives two to her bear (who is very hungry) and still has one left over: she has managed to save one stalk.

She now has many more possibilities: she can take the next day off to play, consuming her savings, or she can continue to save. If she cuts another three and her panda eats one, she will have increased her savings to three bamboo stalks. Another day and her pile of savings will have increased to five. She can also spend some time repairing her saw, after all it can wear down or break if she never spends a little effort on maintenance, consuming her capital. Or she can make another, even more efficient production good.

"By creating capital Blondie sacrifices today's bamboo for more tomorrow"

It’s thanks to savings and capital accumulation that we improve productivity and this allows us to live better in the long term, do more things with less effort or in less time. Thanks to capital accumulation Blondie has enough bamboo not just to feed her panda bear, but also to make him a house, toys or furniture and still have time left to play.



"Being more productive Blondie can do more to keep her panda happy"

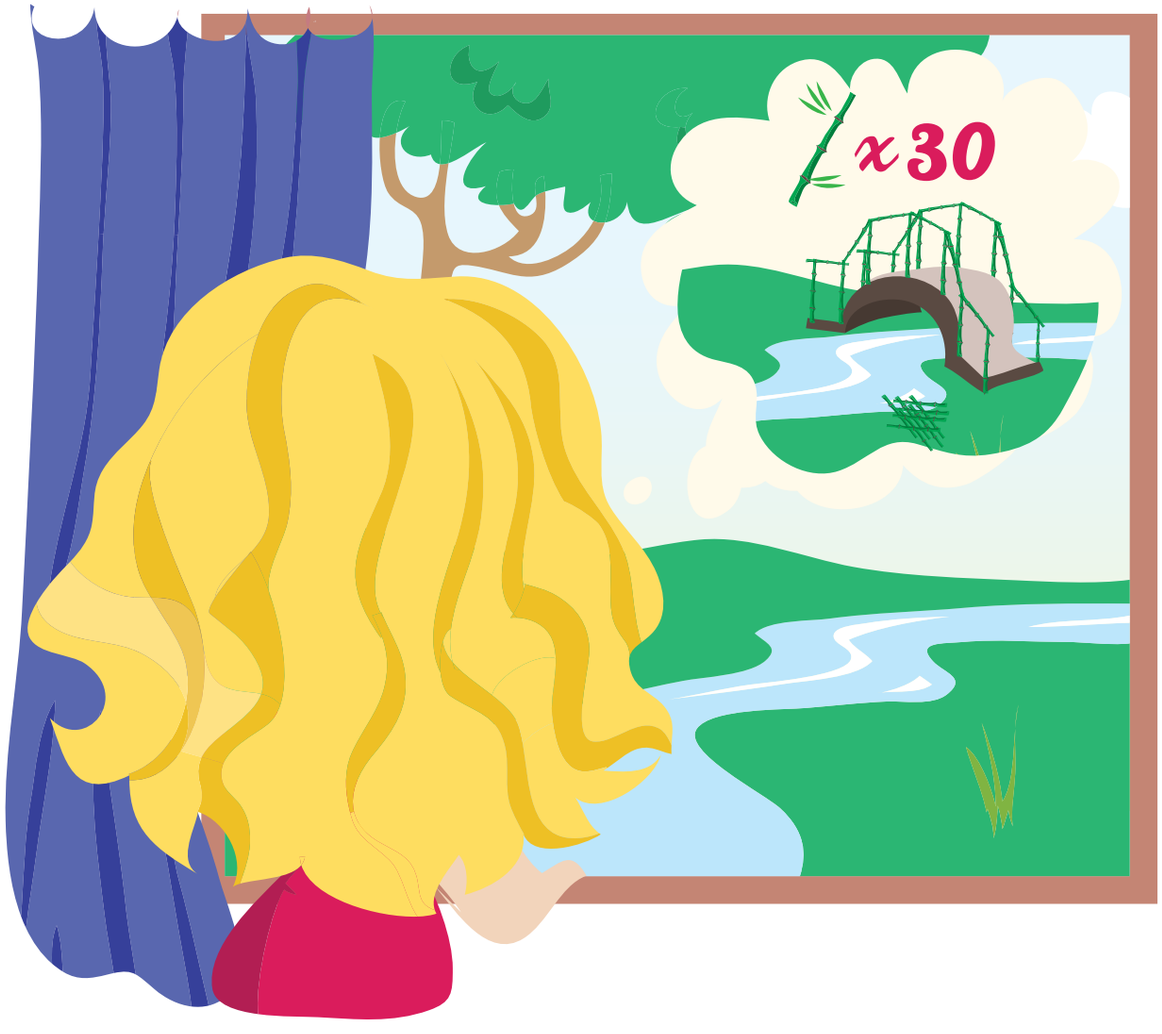
The share of consumer goods that we are willing to give up in the present and dedicate to savings will depend on our time preference. All things being equal we prefer to have more bamboo today than tomorrow. For how many bamboo stalks tomorrow would we be willing to give up one today?

We can only undertake big projects, especially if they are risky, on a solid foundation of savings.

Close to Blondie's garden, just across a river, there is a huge bamboo forest. Blondie can see hundreds of bamboo stalks just lying around for the taking. If she could reach them she would only need to pick them up effortlessly and she could feed her bear and spend all day playing. She might even be able to have another panda bear! But, how can she get across the river?

Blondie has another awesome idea: she will build a bridge! She estimates that she will need twenty bamboo stalks and ten days to build it. If Blondie had never made her saw, the entire idea would be a ridiculous, impossible dream. How could she possibly not feed her panda for thirty days! But thanks to her saw Blondie can save up to two stalks a day, so when she manages to save up to thirty, twenty for the bridge and ten to feed the bear while she is building it, she can get started. In just fifteen days she will be able to launch her ambitious project. With this work plan in mind she starts to save: 2, 4, 6 bamboo stalks…

"Blondie will have to save for her big project. It's going to be amazing!"



Let us imagine that on the fifth day, when Blondie has already saved ten bamboo stalks, she is suddenly visited by a genie that gives her as a present the twenty stalks that she was missing! Blondie is ecstatic! She can get started right away.

What Blondie doesn't know is that the genie is a little twisted trickster: He hasn't given her real bamboo stalks, but fake stalks of green paper! Unknowing, Blondie starts to build her bridge. All the time spending her savings at a rate of three a day: two for the bridge and one for the bear.

"A genie gives Blondie 20 bamboo stalks, but..."

After just three days of work, Blondie discovers the genie's trick and that she has run out of bamboo!

The worst thing is that out of the ten real stalks that Blondie had, two are broken when dismantling the bridge so that Blondie is even worse off than if she had never listened to the genie. She won't just have to start saving again, she has also lost a full day of bamboo production and several days of work.

Fake information about available resources can lead to serious mistakes and the longer the deception lasts, the more serious the consequences and greater the loss. For as long as the illusion of riches lasts, everything seems better. Blondie could have increased her consumption and speeded up her building efforts. Sadly it was all an unsustainable bubble.

Capital cannot be created by magic or out of thin air, it must be based on real savings. Nor can fake savings be created by printing money.

"Blondie has to start again when she discovers the bamboo stalks are made of paper"

+ Savings

+ Capital

+ Indirect Production

+ Productivity

Property

Your property is the fruit of your efforts, time and talents. It's those natural resources that, through your work, you put to productive use and make useful for people. It's also those goods belonging to other people that these give to you of their own free will, be it as a gift or as part of a voluntary exchange.

The different ways of acquiring property can be summarised into two types: Taking over unowned natural resources (accession, occupation, homesteading) and the will of the previous owner (succession, donation or trade).

Homesteading

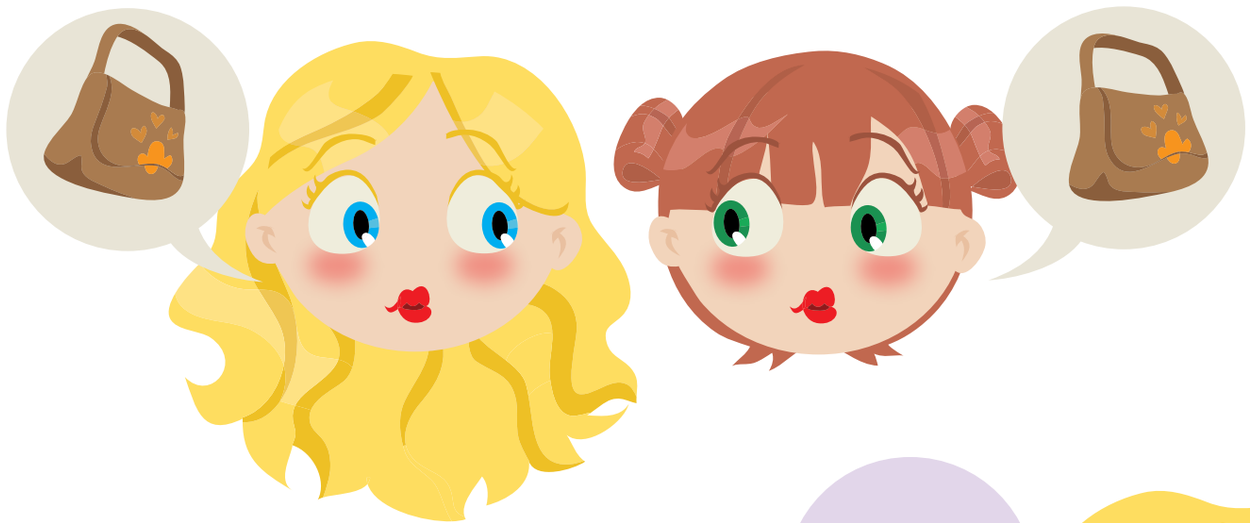
Donation

Property Rights over a good mean that you effectively control that good and can exclude others from it. This control means that you can enjoy any benefits provided by the good, you can use it as you like and you can dispose of it. Simple use means any way of enjoying the good which does not consume it, benefits are those fruits which the good may provide (milk from a cow or apples from a tree). Disposition means that you can alter, transfer or even destroy the good as you see fit.

Property Rights are the cornerstone of economics, the basic rule on which all else rests. Without a social rule that determines what belongs to whom and who controls what, it would be impossible to trade, save, invest or even consume. Even eating an apple could be the source of a conflict if everybody or nobody had control over it. In many cases where property and control over goods are not clearly determined or are in dispute, there are often all kinds of fights and arguments. When property is shared by many, all kinds of arrangements and agreements must be made so that one person's use does not hurt another's right. It is also frequent for common property to be neglected, as Aristotle said: "Nobody cares after what belongs to everyone".

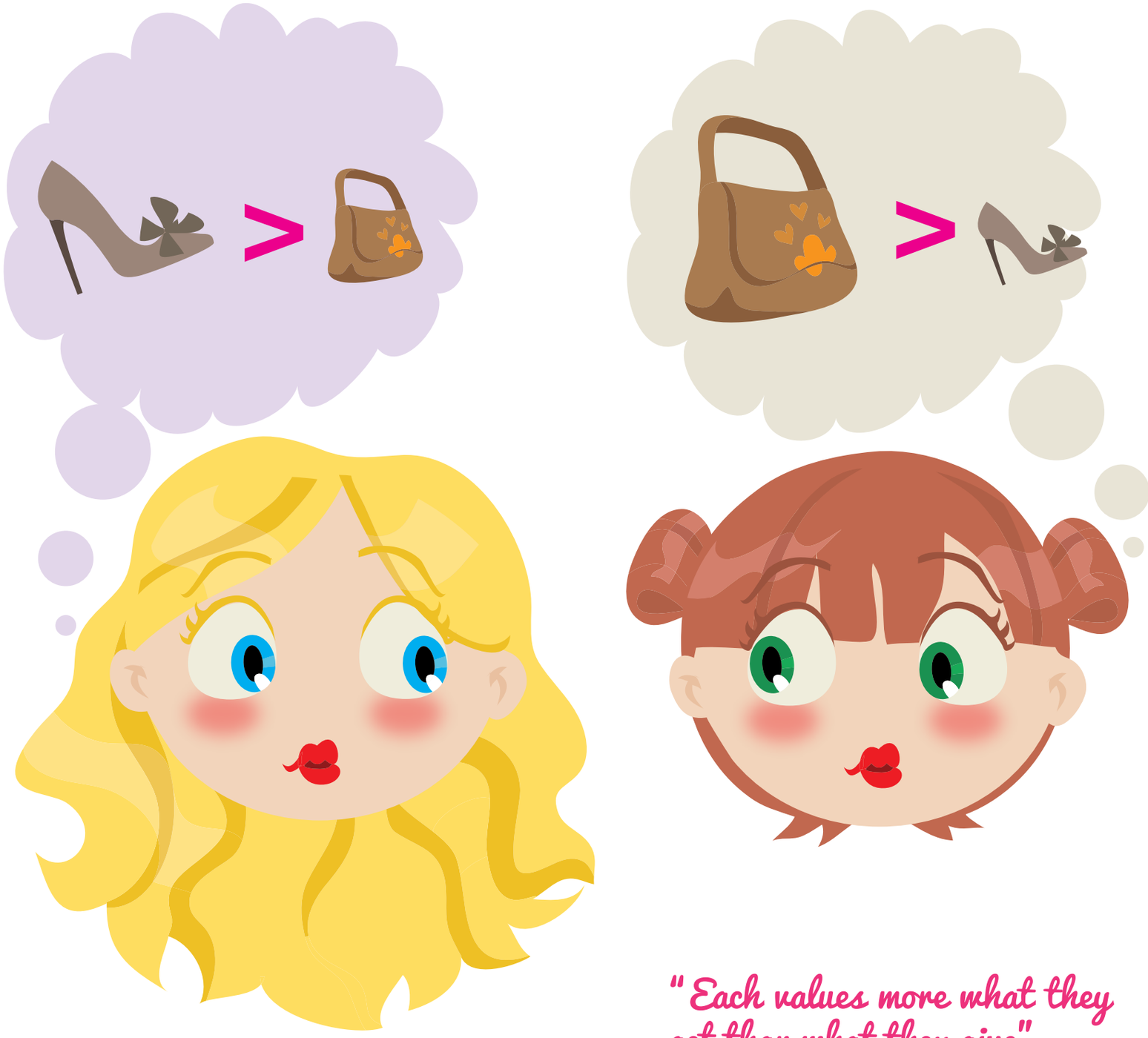
Simple Exchange or Barter

Barter is the most direct and simple type of exchange. It means that you trade one good for another. For an exchange to make economic sense it must fulfil two requirements:
First, the goods being exchanged must be different in some way.



"Why exchange two identical things?"

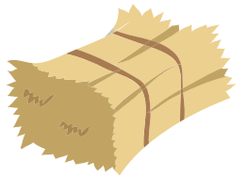
Second, both parties to the exchange must value what they receive more than what they give up. Otherwise, what is the point? Of course, remember that value is subjective and is also subject to diminishing marginal utility. In a voluntary exchange both parties will prefer what they get to what they give, for that given quantity. Both win because both value the goods differently and both get more than they give.



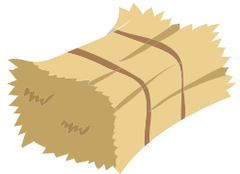
"Each values more what they get than what they give"

Let us go back to Blondie and her panda. Blondie is still picking bamboo and suddenly discovers that she has a neighbour: Annie, who also has a pet, a beautiful chestnut pony. While Blondie was learning to pick bamboo and made tools to do it more efficiently, Annie had been doing something similar, learning to gather hay to feed her pony and had even made a scythe that allowed her to do it faster. Blondie could, of course, also collect hay by hand and Annie could cut bamboo stalks, but both are much better at their own specialty and this is reflected in their daily production capacity:

Blondie's production capacity

5 x / 1 x 

Annie's production capacity

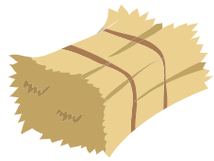
5 x  / 1 x

Each of them also has a different scale of preferences, a ranking of things they want, which informs the use they want to give their resources. You can see below what are their most urgent uses for their production.

If Blondie and Annie each concentrate on what they do best, in one day they could between them produce 5x hay and 5x bamboo. If they tried to each produce a bit of both they would be able to make much less. But would they be willing to trade hay for bamboo? Would they come out ahead?

Let's take a look at what Blondie would do. After spending 3 stalks of bamboo on her top priorities (food and housing), she could spend her remaining 2 stalks on making toys for her panda. However she would prefer (as we can see on her preference scale below) to make a soft bed out of hay so that her bear could sleep really comfy.

Blondie's preference scale

Cost		Want
	≈	1º
	≈	2º
	≈	3º
	≈	4º

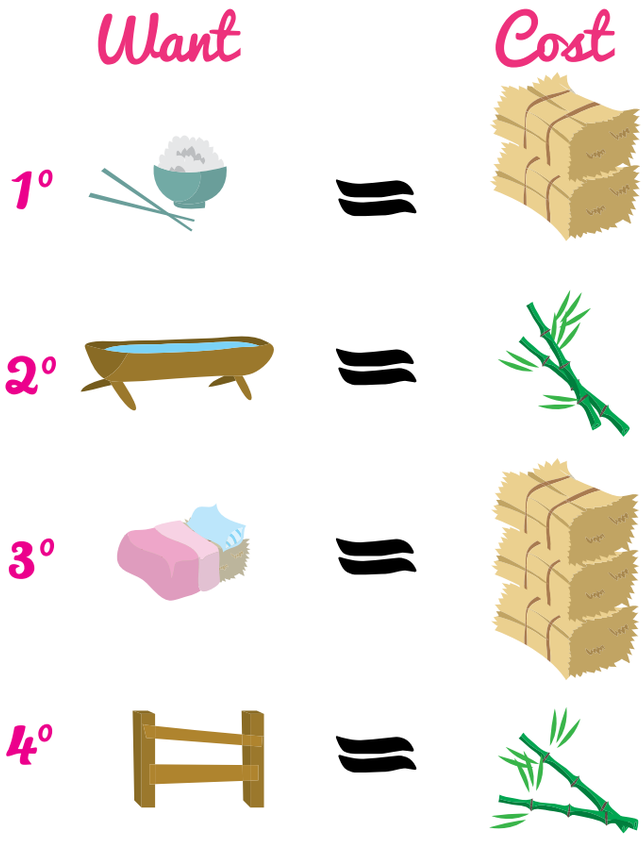
Meanwhile Annie, after feeding her pony (2x hay), could spend the rest (3x hay) on a bed, but she would much rather have a bamboo trough for her friend to drink without having to walk all the way to the river.

If Blondie and Annie exchanged 2 stalks of bamboo for 2 bales of hay, Blondie could have her bed and Annie her trough. They would both come out winners from the trade, since both would satisfy needs that, in their own estimation, were more important.

What if by a stroke of luck Annie came across a bunch of hay? She could also have her bed and would have more left over to trade or to spend another day. But Blondie doesn't want any more hay! In fact what she would like is even more bamboo for toys. A trade would no longer be beneficial for both.

Of course, being friends, Blondie might give bamboo to Annie as a gift, especially if she doesn't need it, but the significant thing is that the previous trade would be carried out even if they were not friends. Even if the girls did not like each other it would make sense, since both would win. As Adam Smith once wrote "It is not from the benevolence of the butcher, the brewer… that we can expect our dinner, but from their regard to their own interest". Thanks to commerce, even strangers can help each other and cooperate.

Annie's preference scale

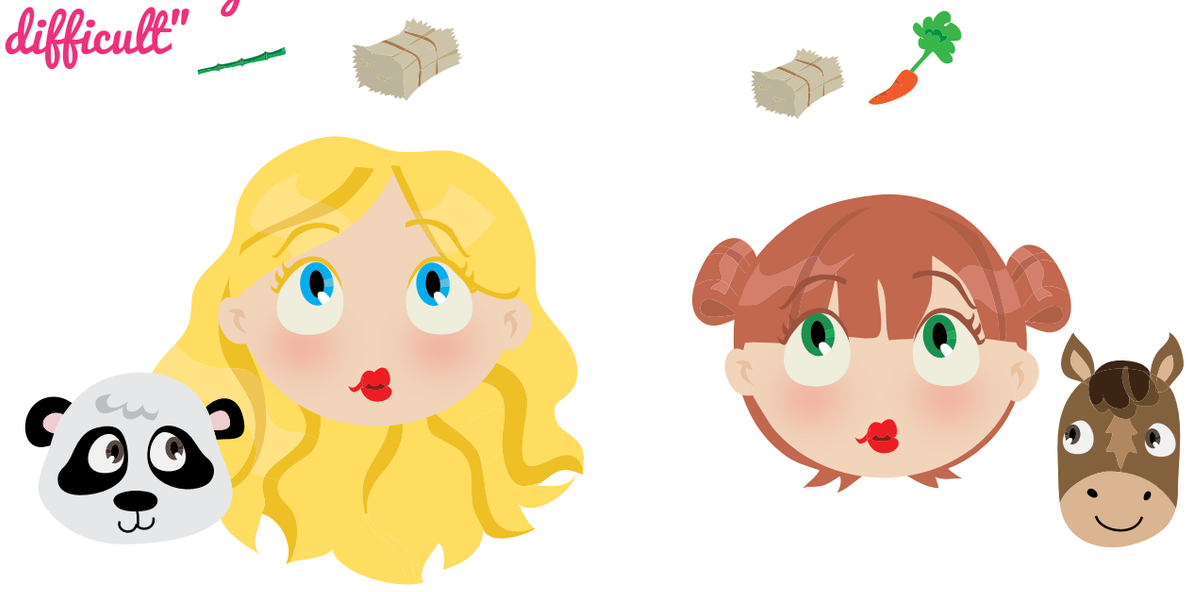


Indirect exchange

As the number of people in a market grows, so does complexity of exchange. The person that has what we want does not always want what we have.

Blondie and Annie come across another neighbour: Katie. Katie has a vegetable patch which she tends and waters with great care, she spends all her free time gardening. Among other things, she grows carrots in her garden, and it just happens that Annie's pony absolutely craves carrots.

"As the number of players grows, direct exchange becomes more difficult"



What Katie really wants is bamboo to make a fence around her garden, to protect it from wild goats and rabbits that nibble at her carrots.

Blondie has a lot of bamboo, but doesn't really want carrots. She just doesn't like carrots and her panda can't even eat them. She does, however, want more hay. The simple solution is indirect exchange: Annie can trade hay for bamboo with Blondie and then exchange bamboo for carrots with Katie. That way all the girls will get what they want.

"Indirect exchange solves the lack of double coincidence of needs"

Money

As we just saw, the more complex the market, the more difficult it becomes to find two people that want to exchange directly. As we saw when looking at marginal utility, value is calculated for concrete quantities of goods and it is often difficult to compare different types of goods. How many apples is a car worth? How many cars is a house worth? How many shoes is a closet? It's not just that each good has a different value to a different person, but some of them might not even want it at all, like Blondie with the carrots.

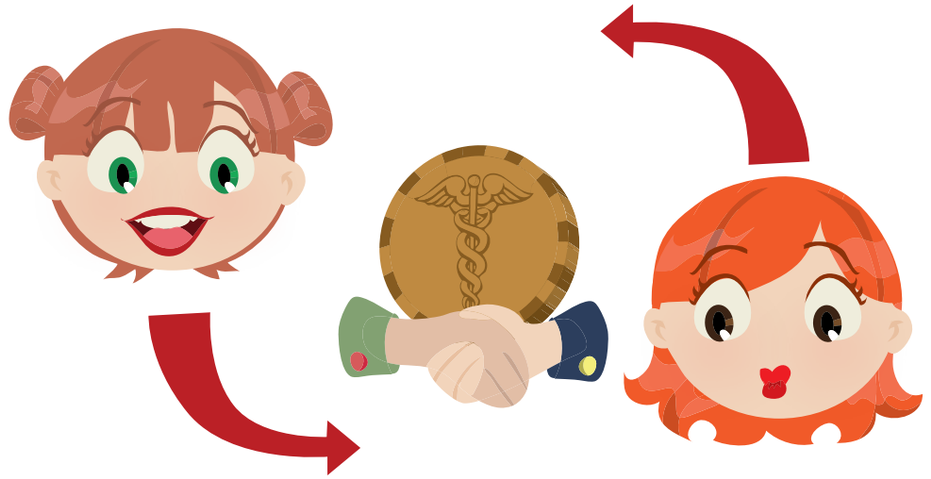
"Money allows us to value different goods in the same unit of account"

The solution to this problem is to find something that everybody wants and to use it as a means of exchange and unit of account. Last chapter all three girls had some use for bamboo, so it would make sense to price goods in bamboo stalks. The choice is logical and simple.

However imagine that Blondie, instead of dealing with just a couple of neighbours had to trade with a whole village full of different people selling all kinds of things. Surely many of them would not know what to do with bamboo. They would all have to find something that everybody, or at least most people. It should be something valuable, easy to store and transport, which could be easily counted and divided, if it were also something durable, that did not spoil, it could also be used to save.

Throughout history many different things have been used as means of exchange: tobacco, camels, rice, shells, stones… people have experimented a lot, always searching for something that best performed the traditional functions of money:

1. Means of exchange
2. Unit of account
3. Store of value



Exchange

Savings

Calculation

Some things fulfil these functions better than others. It is difficult to “save” in chickens for many years and they are not exactly easy to divide into smaller units. For something to be a good currency, good money, it should be measurable, divisible and homogeneous.

Each patch of land, each diamond or each chicken is different (they are not homogeneous), they are not easily divisible or measurable or easy to transport. All these things have been used as currency in the past. And don’t forget diminishing marginal utility! If a good is very abundant its value decreases, so if something is easy to counterfeit, copy or make more of, it will quickly lose value and will not be very good at storing value over time.

All these are the reasons that precious metals have so often been used as money throughout history. Money is a tool, a very useful tool but only as useful as the functions it performs and how well it performs them. If Blondie cannot use bamboo as a medium of exchange in her village, she will find something else that works. If Katie cannot store value in carrots, or if Annie finds bales of hay too cumbersome to use as accounting units, they will all find something better.

“ Some things work better as money than others”

Good Money should have these 7 qualities:

Hard to counterfeit

Scarce

Easy to store

Divisible

Easy to transport

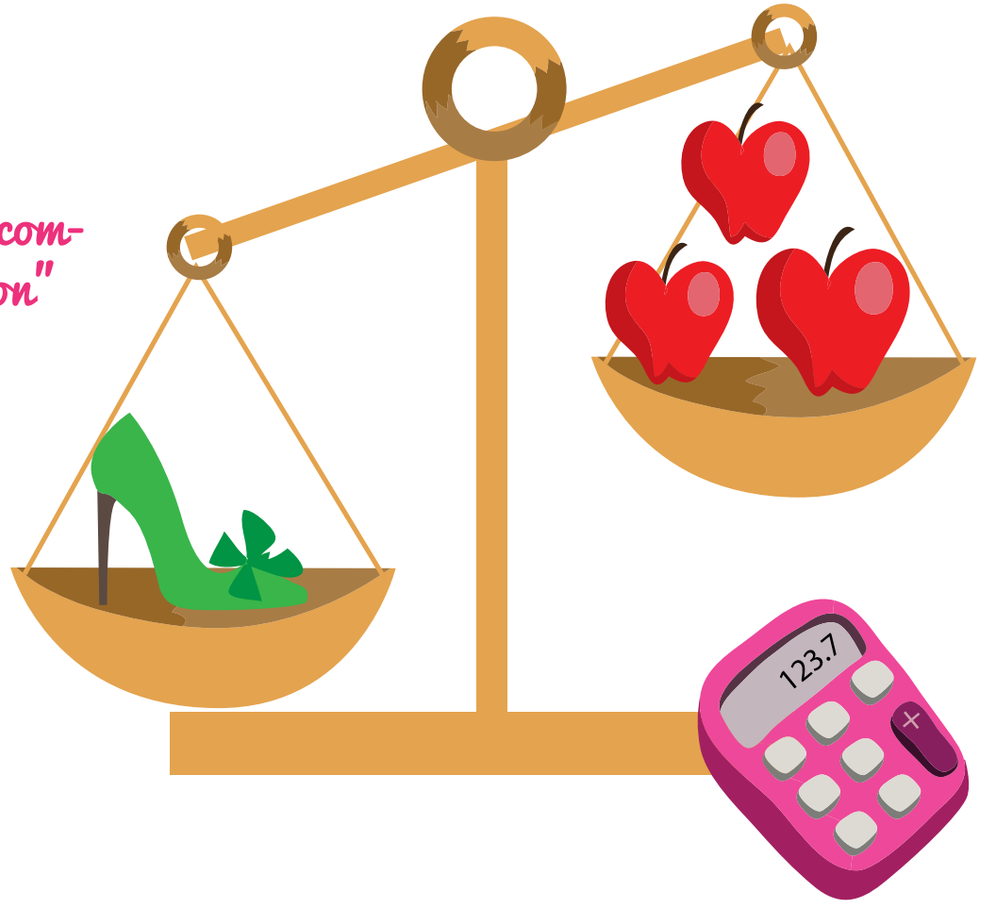
Homogenous

Durable

Prices

Prices are the mechanism that allow us to make complex economic calculations. Once we have a common unit of account we can compare the value of different goods, we can calculate the value of intermediate goods, factors of production and capital goods. Unlike it is often said, it is not the price of factors of production (or costs) that determine the price of consumer goods. It is exactly the other way around: the price at which consumer goods are sold determine how much producers are willing to pay for factors of production needed to make them.

"Prices let us make complex economic calculation"



The price of consumer goods are never a given, they must be discovered. This price discovery takes place through a process of trial and error which tries to get ever closer to demand by consumers and their ever changing tastes and desires, as well as the available alternatives that they could prefer.

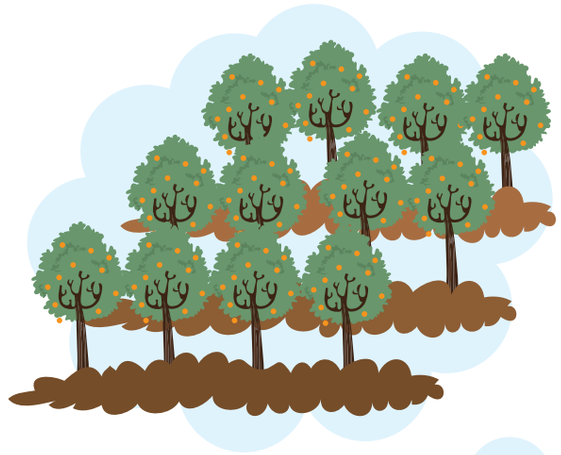
For example, Blondie decides to go into business, and starts an orange juice stand:

On the first day she tries to sell each glass of orange juice for $5, but soon discovers that at that price there are few takers. At the end of the day she still has a lot of leftover juice. On the second day she sells it for $1 a glass. It's such a success that she runs out of orange juice in just a few hours! She has to go home. On the third day she tries selling it for $2 a glass and it looks like she's hit the sweet spot: she sells almost all her orange juice.

"Too expensive and nobody buys, too cheap and you are soon out of juice."

Given her success, Blondie decides to expand. Thinking that she can sell, maybe, 50 glasses at $1 each, she goes to her neighbour Tony who has an orchard. She wants to buy 20 kilos of oranges from him, enough to make 50 glasses of juice.

How much will Blondie pay for 50 glasses worth of oranges? As we explained, it's the final price of consumer goods that determines the price of factors of production that go into making them. Blondie will not pay more than $50 for the oranges if she doesn't think that she can sell the juice for more than $50, and clearly she will try to pay less. She doesn't care how much it cost Tony to grow the oranges.



"Blondie won't pay more than $50 for the oranges if she doesn't expect to sell orange juice for more than $1 a glass"

What Tony in turn will be willing to pay for his orchard and orange trees depends directly on what he expects to sell oranges for, and indirectly on the price that Blondie is selling the final consumer product, orange juice. This is how prices transmit information up the pyramid of production, in this case about the demand for orange juice.

In a complex world in which technology, climate, fashion and taste are in constant change, price discovery is a never-ending mission. With complicated consumer goods with lots of moving parts, like a car, that must be assembled using thousands of components and raw materials from around the world, made by hundreds and thousands of different people… the coordinating function of prices and the amount of information that they carry is huge. They also make everything a lot simpler. The crane manufacturer does not need to know the price of the house that his crane is helping to build; he just needs to know the price that the builders will pay him for his machine. Don't forget, once more, marginal utility and subjective value.

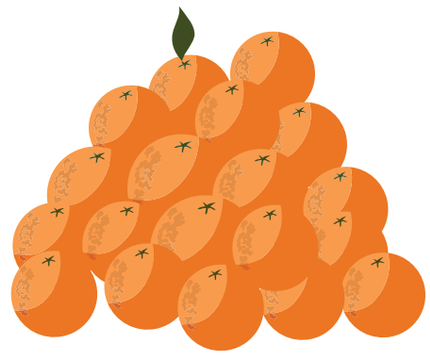
Orange juice consumers will be willing to pay a different price depending on the weather, how thirsty they are and what alternatives are available, and of course they will not value the fifth glass as much as the first.

"It's the value of consumer goods that gives value to producer and capital goods"

"It is not cost what determines the price of consumer goods, as some people believe"

1$

100$



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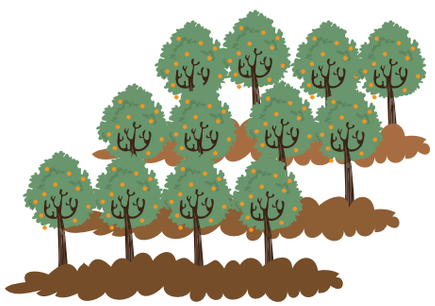


Competition

In the previous chapter we saw that how much Blondie could charge for her product depends mainly on how much demand there is for it, that is, how much consumers are willing to pay. Bear in mind that, given scarcity, when they choose her orange juice, they give up something else. Blondie will also normally have to contend with the existence of competition: other people selling the same or other products that her clients might want to buy. It is not just demand for her products that matters, but also supply.

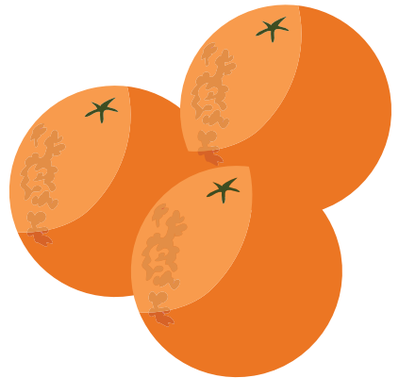
"Competition makes Blondie lower her prices or improve her product".

In our juice stand example, Blondie has had such success with her business that she has expanded her stand. The future looks rosy and business prospects couldn't be better. She has found the sweet spot with prices, selling almost all her production with a good margin of profit. However seeing her business thrive, her friend Annie has decided to go into business for herself and set up her own orange juice stand. Not only that, as a launch promotion, she is selling her juice cheaper than Blondie's.

Now Blondie's clients can not only choose between her orange juice and Annie's, they can also find cheaper juice just a short distance away from Blondie´s stand. Even worse, Blondie´s providers can now choose to sell oranges to her or to Annie. Blondie has to compete for clients and also for the factors of production that she needs.

Competition will, all other things being equal, tend to push up the price of factors of production and put downwards pressure on final prices. Blondie´s business will suffer, but both consumers and other producers will benefit.

"Competition pushes the price of the product down and the prices of factors of production up"



More competition will also make Blondie try to improve her product, making an effort and using her imagination to make better orange juice or come up with new and more delicious products so that consumers will choose hers over Annie's. If her new products are good enough, she might even reach an agreement with Annie to work together and sell her juice in both their stands!

After all Blondie has been making juice for longer and knows all the secrets to making deliciously sweet and fresh juice, while Annie is just getting started.

No matter how cheap her juice is, few people will like it if it's sour. Whatever happens, and whichever juice is sweetest, the existence of more alternatives can only be good news for juice drinkers. After all, nobody forces them to drink orange juice!

"Consumers benefit from more and more varied supply"

Profit and Loss

Blondie may have many goals when she starts her business: The joy of creating, dealing with her customers, the pride of making a great product and the satisfaction of achievement. However for her to be running a business, or at least for it to be sustainable, it must be profitable. Profit and Loss are a way to measure business success, the signal that lets Blondie know if she is creating value.

"Blondie studies how to grow her business"

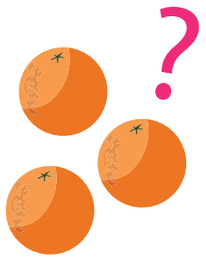
As we saw before value is subjective and it's consumers who will let Blondie know not just if they value her product, but more importantly, exactly how much they value it. The question that is answered by a bottom line, by an entrepreneurial profit or loss is simple: Does society value your product more than the resources that went into making it?

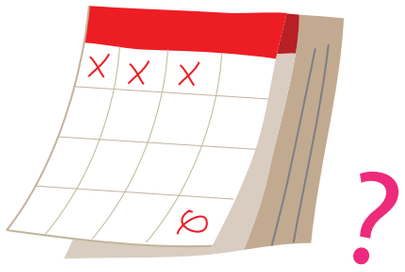
Consumers will vote on this question with their money every single day and if she is to be a successful businesswoman Blondie must listen to their message. Remember that Blondie has used land, work and capital to make her products and each of these factors of production has a value and a cost. Nobody wants to use resources to make something that is worth less than them.

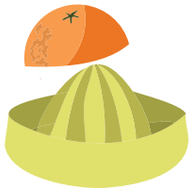
" The time, effort and materials used by Blondie should be less valuable than her product for her business to be profitable"

This gets more complicated when we realise that Blondie needs to consider these values not just in the past, but also in the future. If she wants to continue making juice, she must buy more oranges tomorrow and the price may have changed. Blondie´s job is made even harder by the fact that most of the factors in the equation are actually unknown. As an entrepreneur Blondie has to estimate, even guess sometimes, what they will be. She can correct her estimates as she gathers real data: orange juice demand, the price that clients are willing to pay, the time and work it takes to make juice, rent, the price of oranges, etc, etc…

She must also estimate in time. In the juice business it takes just a few days from the time the oranges are picked to the time that Blondie sells the juice, but in other lines of work it might take months or years for production to be completed.







"Blondie must estimate many factors to succeed"

After her success distributing vitamins and refreshing her neighbours, Blondie decides to launch a new and exciting venture. Blondie and her friend Mika decide to go into the fashion industry. They design a wonderful collection of spring dresses, they shop for fabric, hire a seamstress, contact shops to sell their products and organise a fashion show to show off their work in front of potential buyers.

In the months that they are readying their collection, selling nothing yet, they very conscientiously make a note of all their expenses and try to work out how much they need to sell their dresses for if they are to make a profit. To keep it simple we won't go into accounting complications, types of expenses or consider debt or any of the other thousand little things that are normal in business. Let's just say that the two friends have spent $1.000 on launching their first collection. They should therefore sell at least 10 dresses at $100 each to recover their investment.

"Blondie and Mika have to sell more than 10 dresses to profit"

Blondie and Mika have made 20 dresses, thinking that if they manage to sell all of them they can bring in $2.000. This means that their income statement can range from a loss of $1.000 to a profit of $1.000, depending on how many dresses they manage to sell.

As in every business there is uncertainty and risk. A mistake in estimating demand could lead to Blondie selling nothing at all, for example if they get the fashionable colour wrong or don't consider that the competition is already selling similar dresses for $80 instead of $100. Or they might get it spot on with what customers want, but make a mistake in estimating costs.

"Blondie and Mika can make $1.000 or lose $1.000, depending on sales"

Sales	Income	Cost	P&L
0	0	-1000	-1000$
5	500	-1000	-500$
10	1000	-1000	0
15	1500	-1000	+500$
20	2000	-1000	+1000$

If all goes smoothly and the girls sell all their production, they will not only be rewarded for their efforts, but also, thanks to their profits, they will now have the funds to launch their next collection, and make it even larger: this time they will make 50 dresses. Business profits work not only as signals, in this case the message is that clients like Mika and Blondie´s designs (and prices), but they also carry an incentive or reward by giving successful entrepreneurs the resources to continue in business and even grow. This way businessmen and women can insist on good ideas, or give up on bad ones.

"Profits will allow the girls to launch another collection"

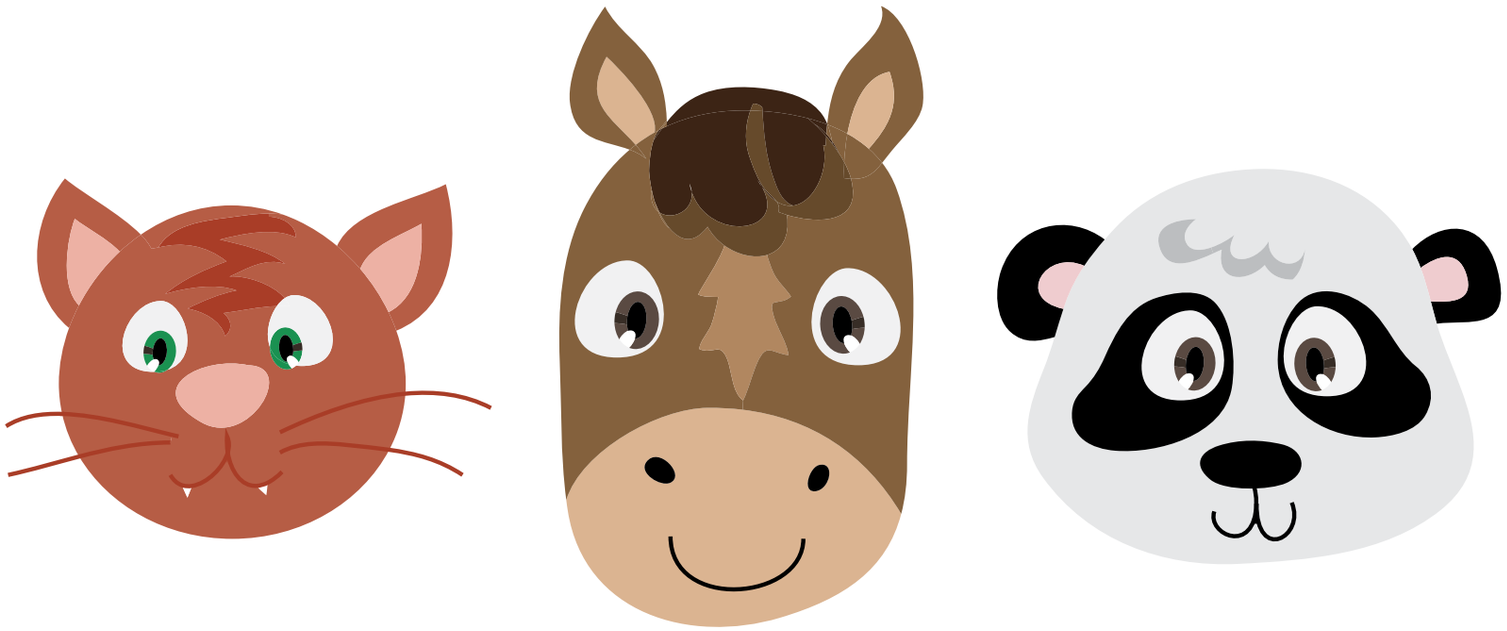
Conclusions

We must not forget that the businessman's values and tastes are not necessarily those of the market, **value is subjective** and the value implied by Blondie´s dress sales is that of her clients, not her own. Maybe Blondie would have liked to make all her clothes yellow, but knowing that clients like them pink, she chose that colour.

Remember also about **marginal utility**: Satisfied clients might want something different next time, they won't pay the same for a dress that they already have, so Blondie will need to create new designs or reduce the price of old ones. Blondie's success will also attract **competition** and other firms might sell the same for a lower **price**. Every business choice has an **opportunity cost**: Blondie had to give up her orange juice stand to go into the fashion industry. However it was thanks to her juice business that she was able to save and accumulate the necessary **capital** to launch her next project, the $1.000 that she had to spend before selling a single dress. Without clearly defined **property rights** over her savings and her dresses she could have never gone into business and without **money** as a means of exchange she would have had to resort to **barter**, trading her designs for other **goods**. It would have been next to impossible to calculate **profit and loss** and very hard to save beforehand. She might have had to save in oranges! How could she have compared oranges, fabric and dresses with the shoes, songs, haircuts, apples, eggs and other goods and services exchanged for them, trying somehow to work out if that random basket of goods and services was worth more or less than her dresses. How do you subtract 3 oranges from 4 songs?

Economics helps us to answer many of these questions and to understand how people act and work together, how they value things and how they make choices between the alternatives available to them.

In this small introduction we have tried to summarise and explain some basic concepts. We hope that it will encourage all you Blondies out there to learn more about this very useful science.



Further Reading

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The Mystery of Banking, **1983, Murray N. Rothbard**
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For Scholarly Blondes:

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BLONDIE ECONOMICS

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